

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 DOE-15 SOE-02 L-03 H-02 PA-02
AID-05 CIAE-00 COME-00 EB-08 FRB-01 INR-10
NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
AGRE-00 ITC-01 DOEE-00 /123 W
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P 270853Z MAR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 6482

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E.O. 11652: N/A/
TAGS: EFIN, ECON, JA
SUBJECT: GOJ ADOPTS SEVEN-POINT ECONOMIC PROGRAM

REF: TOKYO 04008

1. SUMMARY: IN MOVES DESIGNED TO ENSURE ACHIEVEMENT OF 7 PERCENT REAL GROWTH IN JFY 78 AND EXTERNAL EQUILIBRIUM IN THE LONGER RUN, THE GOJ, AT A MEETING OF THE MINISTERIAL COUNCIL ON ECONOMIC AFFAIRS ON MARCH 25, ADOPTED A SEVEN-POINT PROGRAM INCLUDING (1) PROMOTION OF PUBLIC WORKS, (2) REDUCTIONS IN INTEREST RATES, (3) ENCOURAGEMENT OF PRIVATE INVESTMENT, (4) EMPLOYMENT MEASURES, (5) RELIEF OF STRUCTURAL RECESSION INDUSTRIES, (6) ASSISTANCE TO SMALL BUSINESS, AND (7) EXTERNAL ECONOMIC MEASURES. IN ADDITION TO THESE MEASURES, DESCRIBED IN AN ECONOMIC PLANNING AGENCY PRESS RELEASE, PRESS REPORTS SUGGEST THAT THE MINISTERIAL COUNCIL DECIDED (1) TO RESTRAIN THE VOLUME OF EXPORTS IN FY 78 TO THE LEVELS OF FY 77, (2) AT THE STRAUSS-USHIBA AND SCHULTZE-MIYAZAWA MEETINGS IN APRIL, TO URGE THE U.S. TO GREATER
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EFFORTS TO DEFEND THE DOLLAR, AND (3) IF NECESSARY TO EXERCISE FLEXIBILITY IN FISCAL POLICY, FOR EXAMPLE, BY UTILIZING BUDGET RESERVES OR EXPANDING FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) OUTLAYS. END SUMMARY.

2. PROMOTION OF PUBLIC WORKS INVOLVES: (1) ACCELERATION OF PUBLIC WORKS SPENDING: THE GOJ SETS A GOAL OF

PLACING 70 PERCENT OF ALL PLANNED PUBLIC WORKS CONTRACTS IN THE FIRST HALF OF JFY 78 AND (2) PROMOTION OF LARGE-SCALE CONSTRUCTION PROJECTS: PROJECTS UNDER CONSIDERATION INCLUDE CONSTRUCTION OF ADDITIONAL BULLET TRAIN RAILWAYS, EXPRESSWAYS, AND BRIDGES CONNECTING SHIKOKU ISLAND WITH HONSHU ISLAND. PLANS FOR CONSTRUCTING NEW BULLET TRAIN RAILWAYS WILL BE COMPLETED BY SEPTEMBER THIS YEAR. GOJ ALSO SUPPORTS THE PLAN TO CONSTRUCT A NEW KANSAI INTERNATIONAL AIRPORT.

3. REDUCTION OF INTEREST RATES: FOLLOWING UP ON THE LATEST 0.75 PERCENTAGE POINT CUT IN THE OFFICIAL DISCOUNT RATE ANNOUNCED BY THE BANK OF JAPAN ON MARCH 15, THE GOJ WILL PROMOTE PROMPT REDUCTION OF OTHER INTEREST RATES INCLUDING LONG-TERM RATES. QUANTITATIVE EXPANSION OF AND LOWER RATES ON CONSUMER LOANS ARE ALSO TO BE ENCOURAGED.

4. ENCOURAGEMENT OF PRIVATE INVESTMENT: (1) PROMOTION OF PRIVATE HOUSING CONSTRUCTION: IN ADDITION TO ALLOCATIONS OF HOUSING LOANS FOR 30,000 UNITS OF NEW PRIVATE HOUSING CONSTRUCTION ALREADY ADVANCED TO FY 77, THE HOUSING LOAN CORP WILL SPEED UP LOAN ALLOCATIONS FURTHER BY ALLOCATING IN APRIL MORE THAN HALF OF THE LOANS APPROPRIATED FOR FY 78. REDUCTIONS IN HOUSING LOAN INTEREST RATES, BOTH PRIVATE AND PUBLIC, ARE ALSO TO BE ENCOURAGED. (2) FURTHER STEP-UP IN ELECTRIC POWER PLANT INVESTMENT: GOJ SETS A 5 TRILLION YEN TARGET FOR FY 78 EXPENDITURE ON CONSTRUCTION UNCLASSIFIED

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OF ELECTRIC POWER PLANTS. THE GOJ WILL ALSO TAKE STEPS TO ACCELERATE INVESTMENT BY THE GAS INDUSTRY BY 50 BIL YEN DURING THE FISCAL YEAR 78. (3) MEASURES WILL BE TAKEN TO PROMOTE CONSTRUCTION OF OIL STORAGE FACILITIES, INCLUD-

5. EMPLOYMENT MEASURES TO BE TAKEN INVOLVE CREATION OF JOBS FOR UNEMPLOYED WORKERS AND THE ELDERLY THROUGH INCREASED PUBLIC WORKS PROJECTS, INCLUDING LOCAL BOND ISSUES TO FINANCE SUCH PROJECTS, AND BY OTHER MEASURES.

6. RELIEF FOR STRUCTURAL RECESSION INDUSTRIES: EARLY DIET PASSAGE AND PROMPT IMPLEMENTATION OF LEGISLATION TO EXTEND RELIEF FOR INDUSTRIES IN CHRONIC RECESSION ARE TO BE SOUGHT. ALSO CONTEMPLATED IS FURTHER REDUCTION IN INTEREST RATES ON OUTSTANDING LOANS EXTENDED THROUGH GOVT-AFFILIATED FINANCIAL INSTITUTIONS TO COMPANIES IN THE STRUCTURAL RECESSION INDUSTRIES.

7. ASSISTANCE TO SMALL BUSINESS WILL INVOLVE REDUCTION IN INTEREST RATES BOTH ON NEW AND OUTSTANDING LOANS TO THEM THROUGH GOVT-AFFILIATED FINANCIAL INSTITUTIONS. EXTENSION OF THE LIFE OF, AND EXPANSION OF ENTERPRISES ELIGIBLE FOR,

EXISTING GOVT ANTI-BANKRUPTCY PROGRAMS FOR SMALL ENTERPRISES SERIOUSLY HIT BY THE SHARP RISE IN THE YEN'S EXCHANGE RATE AS WELL AS RECESSION WILL ALSO BE UNDERTAKEN.

8. EXTERNAL ECONOMIC MEASURES: (1) LIBERALIZATION OF JAPAN'S FOREIGN EXCHANGE CONTROLS: A THOROUGH REVIEW OF THE "FOREIGN EXCHANGE AND FOREIGN TRADE CONTROL LAW" AND THE "LAW CONCERNING FOREIGN INVESTMENT" WILL BE COMPLETED IN TIME FOR PRESENTATION OF LEGISLATION NECESSARY FOR REFORM TO THE NEXT ORDINARY DIET SESSION. THIS LEGISLATION WILL EMBODY A NEW PHILOSOPHY CONCERNING JAPAN'S FOREIGN EXCHANGE CONTROLS, THAT IS, ALL INTERNATIONAL

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P 270853Z MAR 78
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TRANSACTIONS WILL BE PERMITTED IN PRINCIPLE. (2) SMOOTH EXECUTION OF THE JAPAN-CHINA LONG-TERM TRADE AGREEMENT: AN INTERIM REPORT ON TECHNICAL ISSUES INVOLVED IN CRUDE OIL IMPORTS FROM CHINA WILL BE WORKED OUT BY JUNE APPROXIMATELY. JAPAN EXIMBANK LOAN FACILITIES WILL IF NECESSARY BE UTILIZED TO EXECUTE SMOOTHLY THE JAPAN-CHINA LONG-TERM TRADE AGREEMENT. (3) OTHER EXTERNAL ECONOMIC MEASURES: (A) EMERGENCY IMPORT PROGRAMS ADOPTED MARCH 11 WILL BE EXECUTED PROMPTLY. (B) ASSISTANCE WILL BE GIVEN TO THE IMPORT PROMOTION MISSION WHICH VISITED THE U.S. RECENTLY TO HELP THEM FULFILL THEIR COMMITMENTS, (C) THE GOVERNMENT WILL EXTEND AID TO DEVELOPING NATIONS.

9. THE FOREGOING IS BASED ON A STATEMENT RELEASED BY THE ECONOMIC PLANNING AGENCY FOLLOWING THE MEETING OF THE MINISTERIAL COUNCIL ON ECONOMIC AFFAIRS. IN ADDITION TO THE INFORMATION CONTAINED THEREIN, IT IS WIDELY REPORTED IN

THE PRESS THAT THE FOLLOWING OTHER ACTIONS WERE AGREED BY
THE MINISTERS ON MARCH 25: (1) TO RESTRAIN THE VOLUME OF
EXPORTS IN FY 78 TO THE LEVEL REACHED IN FY 77, (2) AT THE
STRAUSS-USHIBA AND SCHULTZE-MIYAZAWA TALKS IN APRIL, TO
URGE THE U.S. TO MAKE GREATER EFFORTS TO DEFEND THE DOLLAR,
AND (3) IF NECESSARY, TO EXERCISE FLEXIBILITY IN FISCAL
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POLICY, FOR EXAMPLE, BY UTILIZING BUDGET RESERVES AND BY
EXPANDING FLIP PROGRAM OUTLAYS.

10. COMMENT: MOST OF THE ACTIONS COVERED IN THE EPA
ANNOUNCEMENT ARE OF COURSE NOT NEW. MINISTERIAL ATTENTION
DOES NEVERTHELESS SERVE TO RE-EMPHASIZE THE IMPORTANCE THE
GOVT ATTACHES TO DOMESTIC EXPANSION. ADDITIONAL INFORMATION
ON MEASURES CITED BY THE PRESS IN PARA 9 ABOVE WILL BE
REPORTED AS IT BECOMES AVAILABLE. MANSFIELD

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